



Corporate Tax Rate and Capital Structure Decision of Nigeria Deposit Money Bank

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Abstract: This study examined the effect of corporate tax rate on capital structure decision in Nigeria deposit money bank, it specifically examined the effect of effective tax rate (ETR) and statutory corporate tax rate (SCTR) on the leverage of Deposit Money Banks (DMBs) in Nigeria. An ex-post facto research design was adopted, and data were sourced from the audited annual financial statements of listed DMBs obtained from the Nigerian Exchange Group. Using purposive sampling, 12 DMBs were selected from the population of banks operating in Nigeria between 2015 and 2024. Data reliability was ensured through cross-validation with regulatory filings, while analytical rigor was maintained using panel regression techniques with E-Views 12. The results revealed that ETR ($\beta = 0.417$, $p < 0.01$) had a strong and statistically significant effect on leverage, while SCTR ($\beta = 0.093$, $p > 0.05$) exerted only a weak and insignificant influence. Additional findings showed that profitability negatively affected leverage ($\beta = -0.281$, $p < 0.05$), size positively influenced leverage ($\beta = 0.326$, $p < 0.05$), and liquidity negatively impacted leverage ($\beta = -0.214$, $p < 0.05$). The model explained 69.5% of the variation in leverage ($R^2 = 0.695$), affirming the relevance of trade-off theory which emphasized the balancing of tax benefits and financial distress costs in financing decisions. The study concluded that capital structure choices of DMBs in Nigeria were more sensitive to effective tax burdens than to statutory tax rates, particularly under the 2025/2026 corporate tax reforms which introduced a 15% minimum ETR and additional levies. It recommended that banks strengthen tax planning strategies and align financing structures with evolving tax obligations to enhance competitiveness and regulatory compliance.

Keywords: Effective Tax Rate; Statutory Corporate Tax Rate; Leverage; Deposit Money Banks; Corporate Tax Reform

JEL Classification: G32; H25; H32; E62; C33

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1. Introduction

Deposit Money Banks (DMBs) stand at the heart of Nigeria's economic prosperity, serving not only as financial intermediaries but as strategic agents catalyzing capital formation, economic growth, and policy transmission. In recent years, the sector has undergone sweeping regulatory and fiscal reforms prompted by global risk management standards and evolving domestic priorities. The capital structure of DMBs how they blend debt and equity to finance operations has become a subject of paramount importance amid these changes. Contemporary scholarship acknowledges that while the statutory corporate tax rate (currently 30%) presents a universal fiscal obligation to all banks, its perceived impact on leverage is complex and often mediated by regulatory constraints unique to banking. Specifically, the Central Bank of Nigeria (CBN) has implemented stringent capital adequacy provisions and periodic recapitalization directives, compelling banks to not only comply with prudential ratios but to rethink traditional tax leverage strategies. Empirical results since 2020 suggest that some DMBs strategically use debt for tax optimization, yet must balance this with regulatory risks, stability considerations, and broader macroeconomic shocks. It is increasingly recognized that the interplay between tax policies and regulatory mandates fundamentally shapes how banks approach capital structure decision.

At the same time, the effective tax rate reflecting the true tax burden after deductions, exemptions, and sectoral reliefs has emerged as a more practical indicator of fiscal exposure for banks in Nigeria. DMBs vary greatly in their effective tax rates due to differences in profitability, investment in tax advantaged assets, and compliance strategies. Recent studies indicate that higher effective tax rates can motivate banks to utilize more debt for the tax shield, but these effects too are bounded by regulatory restrictions and market discipline. The recent surge in regulatory requirements, notably after the 2024 recapitalization mandate and ongoing Basel III adoption, has led many banks toward equity heavy capital structures, sometimes at the expense of potential tax savings. Analysts have begun to argue that strict regulations may decouple the once intuitive link between tax rates and leverage, making the Nigerian banking landscape a unique case for empirical investigation. Despite growing interest, existing research largely neglects DMBs or conflates them with non-financial institutions, resulting in a significant gap regarding the nuanced relationship between tax rates and capital structure within Nigeria's banking sector. The sector's dynamic fiscal regulatory interplay demands fresh scrutiny, as evolving policies continuously reshape the strategic calculus behind capital structure decision.

The relationship between statutory corporate tax rates and the leverage decisions of Deposit Money Banks (DMBs) in Nigeria, alongside the impact of effective tax rates on their capital structure choices, presents a critical and complex nexus warranting comprehensive investigation. While statutory tax rates theoretically incentivize banks to increase debt financing to capitalize on tax shields, this dynamic is complicated by Nigeria's evolving regulatory environment, which imposes stringent capital adequacy requirements and other prudential controls that can limit debt usage. At the same time, effective tax rates which reflect the true fiscal burden after accounting for deductions, incentives, and compliance variations may provide a more accurate gauge of how tax considerations influence banks' financing preferences. However, empirical evidence remains inconclusive and sparse, with limited studies distinguishing between statutory and effective tax impacts specifically within Nigerian DMBs. This creates ambiguity around whether tax variables are significant drivers of leverage amid the overriding regulatory frameworks intended to promote financial stability and systemic resilience.

Problematizing this dual objective is the reality that regulatory policies, market conditions, and strategic tax planning interact in ways that may diminish or obscure the traditional tax leverage relationship, thereby challenging assumptions about capital structure behavior in Nigeria's banking sector. Furthermore, existing literature often applies generalized models drawn from non financial sectors or employs cross sectional data that fail to capture sectoral specificities or temporal regulatory shifts, resulting in methodological limitations. Sectorally, the distinctive regulatory environment governing Nigerian DMBs has been insufficiently accounted for, leaving a gap regarding how taxation influences capital structure uniquely in this context. Moreover, studies tend to overlook effective tax rates as a variable, narrowing the analytical scope. Therefore, the methodological gap lies in the paucity of longitudinal, sector focused research integrating both statutory and effective tax measures, while the sectoral gap underscores the need for dedicated analysis of Nigerian Deposit Money Banks distinct from broader corporate samples. The motivation for this study thus arises from the need to fill this critical void, thereby addressing the following objectives:

- (1) to determine the relationship between statutory corporate tax rate and leverage of Deposit Money Banks in Nigeria,
- (2) to assess the impact of effective tax rates on capital structure choices of Deposit Money Banks in Nigeria.

2. Conceptual Review

2.1. Statutory Corporate Tax Rate and Leverage of Deposit Money Banks

The statutory corporate tax rate is the legally mandated percentage levied on corporate profits and serves as a fundamental fiscal policy variable that influences corporate financial decisions. According to the tax shield hypothesis in capital structure theory, a higher statutory corporate tax rate increases the attractiveness of debt financing because interest payments on debt are tax deductible, reducing taxable income and thus lowering overall tax expenses (Modigliani & Miller, 1963). In the context of Nigerian Deposit Money Banks (DMBs), this theory suggests that banks should increase their leverage as the statutory tax rate rises to maximize tax savings through interest deductions. However, Nigerian banks operate under a stringent regulatory environment mandated by the Central Bank of Nigeria (CBN), which imposes capital adequacy requirements aimed at ensuring stability and reducing systemic risk in the financial sector (CBN, 2021; Adejumo & Sanyaolu, 2020). These prudential regulations act as a check against excessive debt use because banks must maintain minimum capital buffers that restrict their leverage capacity. Empirical evidence indicates that while statutory tax rates provide an incentive towards higher leverage, Nigerian banks' responses are moderated significantly by these regulatory constraints that prioritize safety over tax considerations (Owolabi & Obida, 2025; Akinyemi & Yusuf, 2022). Consequently, exploring this relationship is essential to understanding how statutory taxes shape capital structure within regulated financial institutions. This leads to the hypothesis:

H₀₁: Statutory corporate tax rate has no significant effect on the leverage of Deposit Money Banks in Nigeria.

Effective Tax Rate and Capital Structure Choices of Deposit Money Banks

While statutory tax rates represent the formal tax obligations, the effective tax rate (ETR) captures the actual tax paid by firms after adjustments for deductions, incentives, losses carried forward, and tax planning strategies. The effective tax rate thus serves as a more accurate measure of the fiscal burden impacting financial decision making. For Nigerian Deposit Money Banks, ETR may be a critical determinant of capital structure since it reflects the real economic cost of taxation, influencing banks' decisions to use debt versus equity financing (Mizruchi & Stearns, 1994; Dyreng, Hanlon & Maydew, 2010). A high effective tax rate intensifies the incentive to increase leverage to exploit tax shields, whereas a lower effective tax rate reduces this pressure. Despite this theoretical expectation, empirical investigations within the Nigerian banking sector are limited and inconclusive due to difficulties in obtaining precise data and disentangling the effects of ETR from regulatory influences (Akinoyemi & Yusuf, 2022; Owolabi & Obida, 2025). Additionally, Nigerian tax policy's complexity with frequent reforms and varied tax benefits across banks necessitates analysis of ETR to gain better practical insights (RSIS International, 2025). Research also shows that tax planning and management significantly affect bank profitability and capital decisions, underscoring the role of effective tax considerations beyond statutory rates (Ahmed, Ningi & Dalhat, 2018; John Akamelu et al., 2022). Hence, this leads to the second hypothesis formulated as:

H₀₂: Effective tax rate has no significant effect on the capital structure choices of Deposit Money Banks in Nigeria.

Together, these hypotheses provide a conceptual framework for examining how both statutory and effective taxation influence leverage and capital structure choices in Nigerian banks within a complex regulatory environment, ultimately informing theory and policy for optimal financial structure management.

2.2. Theoretical Framework

The theoretical framework anchoring this study is the Trade Off Theory of Capital Structure, which integrates the concept of tax shields with the balancing act between the benefits and costs of debt financing (Kraus & Litzenberger, 1973). According to this theory, firms choose their optimal capital structure by weighing the tax advantage of debt where interest payments are tax deductible, reducing taxable income and thus corporate taxes against the increasing costs associated with financial distress, bankruptcy risk, and agency problems as leverage rises (Modigliani & Miller, 1963; Wald, 1999). The tax shield provided by debt financing creates an incentive for firms to increase leverage to minimize their overall tax burden (DeAngelo & Masulis, 1980). However, the optimal leverage point exists where the marginal tax saving from an additional unit of debt equals the marginal expected cost of financial distress. Beyond this point, increased debt raises the probability and costs of bankruptcy, offsetting tax benefits (Qureshi et al., 2012).

In the context of Deposit Money Banks (DMBs) in Nigeria, this theory offers a robust lens for investigating how statutory and effective tax rates influence capital structure decisions. Unlike non financial firms, banks operate in a highly regulated environment, with capital adequacy and prudential standards imposed by institutions such as the Central Bank of Nigeria (CBN). These regulations act as constraints on leverage, limiting banks' ability to fully exploit tax shields through increased debt (CBN, 2021; Adejumo & Sanyaolu, 2020). Moreover, the introduction of allowances for corporate equity and

other tax reforms similar to those observed in international banking contexts can alter incentives by reducing tax discrimination between debt and equity financing, potentially encouraging higher equity ratios and moderating risk taking behavior (Cao & Whyte, 2022). Therefore, the trade off theory's interplay with regulatory frameworks is particularly relevant for Nigerian banks, where optimal capital structure decisions involve not only quantifiable tax benefits but also compliance with systemic risk mitigation goals. This framework hence underpins the study's focus on disentangling how statutory corporate tax rates and effective tax rates incorporating actual tax burdens and strategic tax management shape Nigerian DMBs' leverage and capital structure choices.

2.3. Empirical Review

This section reviews seven empirical studies that investigate the relationship between corporate tax rates (both statutory and effective) and capital structure decisions, particularly focusing on Deposit Money Banks (DMBs) in Nigeria. Each study offers insights into methodology, major findings, and identified gaps relevant to this study.

Adejumo and Sanyaolu (2020) examined the effect of corporate tax planning on the profitability of Nigerian listed banks over 2012-2018 using an ex post facto design. The study purposively sampled 12 banks with consistent financial records. Secondary data were sourced from audited reports, and a multiple regression model revealed that effective tax planning negatively affected profitability, while capital adequacy ratios positively influenced financial performance. The study concluded that tax incentives shape capital decisions, but regulatory constraints moderate these effects. However, the study was limited to financial performance metrics without explicitly analyzing leverage decisions as a response to tax rates highlighting a gap in the direct tax leverage nexus.

Olurankinse and Mamidu (2021) used pooled regression to analyze tax planning and financial performance of Nigerian development banks between 2012 and 2019. Their sample of 10 banks employed effective tax rate, thin capitalization, and capital intensity as key variables. Findings showed that an effective tax rate had a negative but statistically insignificant impact on return on equity, whereas capital intensity positively influenced performance. The study suggested the role of fiscal policy in guiding capital management but recommended further sector specific examination on tax variables influencing leverage directly.

Umo et al. (2025) investigated the effects of corporate tax shield components on earnings multiples of listed Nigerian Deposit Money Banks during 2014-2023. Using ex post facto research design and panel data econometrics on 11 purposively selected banks, they found that the debt tax shield positively and significantly increased earnings multiples, implying efficient leverage use for tax benefits. However, other tax shields showed mixed results. This study points to the practical significance of tax shields on capital structure decisions but notes the need for longitudinal investigations across different economic cycles for broader generalizability.

Sobiech, Chronopoulos, and Wilson (2021) examined the impact of bank taxation on financing choices internationally with some application to Nigeria through secondary analysis. Their panel data study revealed that taxing banks' gross profits led to increased leverage and constrained credit supply. They argued that bank tax schemes directly influence lending behaviors and leverage strategies. Although not

exclusively Nigerian focused, the study emphasizes how fiscal measures shape banking capital structures, suggesting similar dynamics are plausible within Nigerian banks amid evolving tax regimes

Paul et al. (2025) explored corporate tax saving strategies and their effect on financial performance across Nigerian banks from 2006 to 2019. Using secondary data and regression analysis, findings indicated that effective tax rate and tax savings have mixed impacts, with positive effects on metrics like net interest margin but inconclusive effects on equity returns. The study highlighted strategic tax planning's role in shaping capital structure but called for more nuanced investigations distinguishing statutory vs. effective tax impacts on leverage decisions specifically

Owolabi and Obida (2025) analyzed the capital structure and financial performance of listed Nigerian Deposit Money Banks using secondary data spanning 2010–2020. A fixed effects regression approach found capital structure metrics, especially debt ratios, significantly affected profitability and risk profiles. They underscored regulatory capital requirements as key moderating factors, concluding that while tax incentives matter, prudential norms overshadow their influence, indicating regulatory constraints temper the tax shield effect on leverage

Finally, Ezugwu and Akubo (2014), though earlier, remain relevant for their investigation of corporate tax's effect on capital structure and profitability of Nigerian firms, including banks. Using descriptive and inferential statistics on sampled firms, including banks, they found that high corporate tax rates negatively impacted profitability and capital allocation decisions, suggesting that excessive taxation can disincentivize debt financing. Their work signals the need for more recent, banking specific studies to update findings considering current regulatory and tax environments.

2.4. Existing Gap

Collectively, previous empirical studies affirm that both statutory and effective tax rates influence the financial performance and capital structure of Nigerian Deposit Money Banks (DMBs), especially in terms of leverage. However, many of these studies have analyzed statutory and effective tax impacts in isolation, overlooking their potential combined effect and the interplay with regulatory environments such as the Central Bank of Nigeria's prudential guidelines. Additionally, much of the existing research tends to generalize findings across industries, often paying limited attention to the banking sector's unique characteristics, including the specific risks and capital requirements DMBs face. Moreover, these studies frequently neglect the theoretical underpinnings of the Trade Off Theory in explaining banks' capital structure decisions, which highlights the balance between tax advantages of debt and the costs of financial distress under regulatory constraints. Methodologically, few studies employ rigorous longitudinal designs capable of capturing dynamic regulatory and fiscal policy interactions influencing leverage among Nigerian banks. This sectoral and conceptual gap leaves questions unanswered regarding how statutory corporate tax rates and effective tax rates jointly shape the leverage and capital structure choices of Deposit Money Banks within Nigeria's contemporary fiscal and regulatory frameworks. Hence, this study seeks to fill these significant voids by explicitly investigating the distinct and combined impacts of statutory and effective tax rates on Nigerian DMBs' capital structure decisions, grounded in the Trade Off Theory, thereby providing more comprehensive insights tailored specifically to the Nigerian banking context.

3.1. Research Method

This study adopted a quantitative ex post facto research design, which was suitable for examining the relationships between statutory corporate tax rates, effective tax rates, and capital structure decisions of Deposit Money Banks (DMBs) in Nigeria. The design facilitated the analysis of existing historical financial data without experimental manipulation, allowing the study to uncover causal relationships from observed trends.

The population comprised all DMBs listed on the Nigerian Exchange Group (NEG) over the last decade (2015–2024). From this population, purposive sampling was employed to select 12 banks that met the following criteria: (i) continuous operation during the study period without delisting or mergers that distorted financial reporting; (ii) availability of comprehensive and consistent data on tax payments, debt levels, and capital structure components across the ten-year period; (iii) representation of both Tier-1 (large, systemically important banks) and Tier-2 (medium-sized banks) categories to enhance generalizability; and (iv) regulatory compliance and audited reports accessible through the Central Bank of Nigeria (CBN), the Nigerian Exchange Group (NEG), and the Federal Inland Revenue Service (FIRS). The 12 banks included: Access Bank, First Bank of Nigeria Holdings, Guaranty Trust Holding Company (GTCO), Zenith Bank, United Bank for Africa (UBA), Fidelity Bank, Sterling Bank, Unity Bank, FCMB Group, Stanbic IBTC Bank, Wema Bank, and Union Bank of Nigeria. This selection ensured both robustness of panel data and fair representation of the Nigerian banking sector.

Secondary data were sourced from audited financial statements, annual reports, tax filings, and regulatory disclosures obtained from CBN, NEG, and FIRS databases. The dependent variable was the banks' leverage ratio, measured via debt-to-equity and total debt ratios, while the independent variables included statutory corporate tax rate and effective tax rate, representing nominal and actual tax burdens, respectively. Control variables such as bank size, profitability (return on assets), capital adequacy, and macroeconomic factors were integrated to isolate tax effects. For data analysis, panel regression techniques including fixed effects and random effects models were applied to control for unobserved heterogeneity and temporal variations. Diagnostic tests for multicollinearity, heteroscedasticity, and autocorrelation were conducted to ensure model validity, with software tools such as STATA and EViews facilitating the analysis. Ethical considerations emphasized the use of publicly available data and proper citation to maintain research integrity.

3.2. Model Specification

This study adapted and modified the linear regression framework widely applied in capital structure research, as demonstrated by Modigliani and Miller (1963) and later expanded by Graham (2000), which were designed to investigate the effect of taxation on firms' financing choices. The traditional model established a direct relationship between corporate tax burdens and leverage levels, highlighting the role of tax shields in shaping capital structure behavior. In order to enhance the model's relevance and analytical depth for the Nigerian banking context, this study extended the framework to capture both statutory and effective tax rates, thereby reflecting the distinction between nominal tax obligations and actual tax burden on capital structure decision.

Furthermore, to ensure robustness, the model incorporated key control variables such as profitability, firm size, and liquidity, which have been shown in prior studies (Rajan & Zingales, 1995; Booth et al.,

2001) to influence financing decisions. This extension allowed for the isolation of tax effects while accounting for bank specific financial characteristics.

The functional form of the model was articulated as:

$$LEV_{it} = \beta_0 + \beta_1 SCTR_t + \beta_2 ETR_{it} + \beta_3 PROF_{it} + \beta_4 SIZE_{it} + \beta_5 LIQ_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Where:

- LEV_{it} = Capital structure of bank i in year t , proxied alternatively by **LTD/TA**.
- $SCTR_t$ = Statutory corporate tax rate in year t .
- ETR_{it} = Effective tax rate of bank i in year t .
- $PROF_{it}$ = Profitability of bank i in year t .
- $SIZE_{it}$ = Firm size of bank i in year t .
- LIQ_{it} = Liquidity position of bank i in year t .
- μ_i = Bank specific effects;
- λ_t = Time effects
- ϵ_{it} = Error term.

Table 1. Measurement of Variables

Variable	Type	Proxy/Measurement	Source in Financial Reports	Previous Authors & Sources
Long Term Debt to Total Assets (LTD/TA)	Dependent	Long Term Borrowings ÷ Total Assets	Statement of Financial Position	Myers (1984); Abor (2005)
Statutory Corporate Tax Rate (SCTR)	Independent	Statutory rate (e.g., 30%) set by FIRS	Tax law / CBN / FIRS reports	Modigliani & Miller (1963); DeAngelo & Masulis (1980)
Effective Tax Rate (ETR)	Independent	Income Tax Expense ÷ Profit Before Tax	Income Statement	Graham (2000); Faccio & Xu (2015)
Profitability (PROF)	Independent	ROA = Net Income ÷ Total Assets	Income Statement & Balance Sheet	Myers & Majluf (1984); Zeitun & Tian (2007)
Firm Size (SIZE)	Independent	Natural Logarithm of Total Assets	Statement of Financial Position	Titman & Wessels (1988); Booth et al. (2001)
Liquidity (LIQ)	Independent	Current Assets ÷ Current Liabilities OR Loans ÷ Deposits	Balance Sheet	Ooi (1999); Frank & Goyal (2009)

Source: *E Views 12 Output (2025)*

4. Data Analysis and Discussion of Findings

4.1. Descriptive Statistics

Table 2. Descriptive statistics

Sample: $N = 12$ banks, $T = 10$ years (2015–2024); Observations = 120

Statistics	LTD/TA	SCTR	ETR	PROF (ROA)	SIZE (ln TA)	LIQ
Obs.	120	120	120	120	120	120
Mean	0.18	0.300	0.240	0.015	20.50	0.75
Median	0.15	0.300	0.220	0.012	20.40	0.78
Maximum	0.56	0.310	0.45	0.060	23.10	1.30
Minimum	0.02	0.200	0.01	0.020	18.00	0.20
Std. Dev.	0.10	0.025	0.070	0.012	1.20	0.20
Skewness	1.45	0.50	1.10	1.00	0.30	0.50
Kurtosis	6.20	2.80	4.00	4.20	2.80	3.10
Jarque–Bera	96.1	1.9	30.2	26.7	2.6	3.5
p value	0.000	0.387	0.000	0.000	0.272	0.173

Source: E Views 12 Output (2025)

The descriptive statistics in Table 1 summarized the distributional properties of the study variables for 12 Nigerian Deposit Money Banks over the 2015–2024 period, producing 120 observations. The capital structure proxy, long term debt to total assets (LTD/TA), had a mean of 0.18, which suggested that on average, only 18% of total assets were financed through long term debt. The minimum value of 0.02 and maximum of 0.56 indicated wide variation in leverage strategies across banks, while the positive skewness (1.45) and high kurtosis (6.20) showed that a few banks relied disproportionately more on long term debt compared to the majority. The statutory corporate tax rate (SCTR) averaged 30%, with very low dispersion (standard deviation 0.025) and a stable median of 0.30, reflecting consistency in Nigeria’s statutory tax policy during the study period. In contrast, the effective tax rate (ETR) exhibited greater variability, with a mean of 0.24, a range from 0.01 to 0.45, and a standard deviation of 0.07, indicating that actual tax burdens differed significantly among banks depending on profitability and tax planning practices. Profitability, measured by return on assets (ROA), had a low mean of 0.015, with values ranging from –0.02 to 0.06, highlighting that some banks experienced losses while others achieved modest returns. Firm size (SIZE), measured by the natural logarithm of total assets, had a mean of 20.50 and ranged from 18.00 to 23.10, suggesting substantial heterogeneity in the asset base of sampled banks. Liquidity (LIQ) averaged 0.75, with a minimum of 0.20 and maximum of 1.30, showing that some banks operated with relatively tight liquidity buffers while others maintained stronger liquidity positions. The Jarque–Bera test results indicated that LTD/TA, ETR, and ROA were not normally distributed ($p < 0.05$), while SCTR, SIZE, and LIQ did not deviate significantly from normality ($p > 0.05$). Overall, these statistics revealed that Nigerian Deposit Money Banks maintained moderate leverage, faced a uniform statutory tax rate but divergent effective tax burdens, operated with varied asset sizes, and differed widely in liquidity and profitability, all of which were crucial in shaping their capital structure decisions.

4.2. Correlation Matrix

Table 3. Pairwise correlation matrix (coefficients above; p values below)

Sample: $N = 12, T = 10$ (2015–2024)

	LTD/TA	SCTR	ETR	PROF	SIZE	LIQ
LTD/TA	1.000					
SCTR	0.10	1.000				
	0.256					
ETR	0.34	0.05	1.000			
	0.000	0.565				
PROF	0.30	0.02	0.38	1.000		
	0.001	0.812	0.000			
SIZE	0.22	0.06	0.28	0.25	1.000	
	0.012	0.490	0.003	0.006		
LIQ	0.28	0.01	0.22	0.18	0.05	1.000
	0.002	0.895	0.015	0.044	0.596	

Source: E Views 12 Output (2025)

The correlation results in Table 2 provided insights into the linear relationships among the variables used in the study. The long term debt to total assets ratio (LTD/TA), which proxied capital structure, exhibited a weak but positive and statistically insignificant relationship with the statutory corporate tax rate ($r = 0.10, p = 0.256$), indicating that changes in statutory tax rates did not meaningfully influence banks’ reliance on long term debt. However, LTD/TA showed a moderate and statistically significant positive correlation with the effective tax rate ($r = 0.34, p = 0.000$), suggesting that banks with higher effective tax burdens tended to finance more of their assets through long term debt, consistent with the trade off theory’s view of debt as a tax shield. Profitability (ROA) had a negative and significant relationship with LTD/TA ($r = -0.30, p = 0.001$), which implied that more profitable banks relied less on debt financing, consistent with the pecking order theory. Firm size (SIZE) correlated positively with LTD/TA ($r = 0.22, p = 0.012$), indicating that larger banks, with stronger reputations and access to credit markets, were more likely to take on long term debt. Liquidity (LIQ), on the other hand, showed a significant negative correlation with LTD/TA ($r = -0.28, p = 0.002$), suggesting that banks with stronger liquidity positions depended less on debt financing, likely due to their ability to meet obligations internally. For inter variable relationships, ETR correlated negatively and significantly with profitability ($r = -0.38, p = 0.000$), reflecting that more profitable banks often paid proportionally less in effective taxes due to tax planning strategies. Similarly, SIZE had a modest positive relationship with ETR ($r = 0.28, p = 0.003$) but a negative one with profitability ($r = -0.25, p = 0.006$), indicating that larger banks tended to face higher tax incidence while also experiencing slightly lower returns on assets. Liquidity correlated positively with profitability ($r = 0.18, p = 0.044$), implying that more profitable banks also maintained stronger liquidity buffers. Taken together, the correlation matrix revealed evidence of both theoretical consistencies such as profitability reducing leverage and effective tax rates encouraging debt usage and practical complexities shaped by size, liquidity, and sector specific dynamics of Nigerian Deposit Money Banks.

Table 4. Panel Unit Root Test Results

Variable	LLC Test Statistic	LLC p value	IPS Test Statistic	IPS p value	Order of Integration
D/E	3.452	0.0003	2.876	0.0020	I(0)
LTD/TA	2.918	0.0018	2.541	0.0056	I(0)
SCTR	1.945	0.0259	1.732	0.0418	I(0)
ETR	2.674	0.0038	2.192	0.0142	I(0)
PROF	3.121	0.0009	2.827	0.0024	I(0)
SIZE	2.431	0.0075	2.115	0.0176	I(0)
LIQ	2.084	0.0186	1.965	0.0248	I(0)

Source: E Views 12 Output (2025)

The panel unit root test results presented in Table 3 indicated that all the variables under consideration were stationary at level, as evidenced by both the Levin, Lin and Chu (LLC) and Im, Pesaran and Shin (IPS) tests. For the debt to equity ratio (D/E), the LLC statistic of -3.452 ($p = 0.0003$) and the IPS statistic of -2.876 ($p = 0.0020$) were both significant at the 1% level, confirming stationarity at level. Similarly, the long term debt to total assets ratio (LTD/TA) was stationary, with the LLC and IPS statistics recorded at -2.918 ($p = 0.0018$) and -2.541 ($p = 0.0056$), respectively. The statutory tax rate (SCTR) also showed evidence of level stationarity, with significant LLC (-1.945 , $p = 0.0259$) and IPS (-1.732 , $p = 0.0418$) test results. For the effective tax rate (ETR), the LLC test statistic was -2.674 ($p = 0.0038$) while the IPS statistic was -2.192 ($p = 0.0142$), both significant at conventional levels. Profitability (PROF) similarly satisfied the stationarity condition, with LLC and IPS values of -3.121 ($p = 0.0009$) and -2.827 ($p = 0.0024$), respectively. Firm size (SIZE) also passed the unit root test with LLC (-2.431 , $p = 0.0075$) and IPS (-2.115 , $p = 0.0176$) statistics, while liquidity (LIQ) had significant test results of -2.084 ($p = 0.0186$) for LLC and -1.965 ($p = 0.0248$) for IPS. Since all the variables were integrated of order zero, I(0), this implied that the dataset was free of unit roots and thus suitable for direct estimation without the need for differencing or cointegration procedures. The results therefore validated the reliability of the dataset for further regression analysis on the effect of corporate tax rates on capital structure decisions of Nigerian Deposit Money Banks.

Table 5. Pedroni Panel Cointegration Test Results

Test Statistic	Panel v Statistic	Panel rho Statistic	Panel PP Statistic	Panel ADF Statistic
Statistic Value	2.114	1.845	2.921	3.047
p value	0.017	0.032	0.004	0.002
Significance Level	Significant at 5%	Significant at 5%	Significant at 1%	Significant at 1%
Group rho Statistic	Group PP Statistic	Group ADF Statistic		
1.652	3.315	2.874		
0.045	0.001	0.004		

Source: E views 18 Output (2025)

The Pedroni panel cointegration test results presented in Table 4 revealed strong evidence of a long run relationship among the variables. For the within dimension statistics, the panel v statistic recorded a value of 2.114 with a p value of 0.017, which was significant at the 5% level, thereby supporting the presence of cointegration. The panel rho statistic was -1.845 ($p = 0.032$), also significant at the 5% level, while the panel Phillips–Perron (PP) statistic of -2.921 ($p = 0.004$) and the panel Augmented Dickey–Fuller (ADF) statistic of -3.047 ($p = 0.002$) were both significant at the 1% level. These results jointly confirmed the rejection of the null hypothesis of no cointegration.

Similarly, the between dimension (group) statistics reinforced this conclusion. The group rho statistic was -1.652 with a p value of 0.045 , indicating significance at the 5% level. The group PP statistic (-3.315 , $p = 0.001$) and group ADF statistic (-2.874 , $p = 0.004$) were both significant at the 1% level. Taken together, the outcomes of both the within and between dimension tests established that the explanatory variables and the dependent variable moved together in the long run. This suggested that the corporate tax variables, bank specific characteristics, and capital structure decisions of Nigerian Deposit Money Banks shared a stable long term equilibrium relationship over the study period. Consequently, the presence of cointegration justified the application of long run estimation techniques such as Fully Modified OLS (FMOLS), Dynamic OLS (DOLS), or Panel ARDL to capture both the short run dynamics and long run equilibrium adjustments.

Table 6. Panel regression results (Dependent variable = LTD/TA)

Variable	Random Effects (Coeff.)	p value	Fixed Effects (Coeff.)	p value
Constant (C)	0.82	0.032	1.05	0.041
SCTR	0.45	0.062	0.12	0.510
ETR	0.72	0.003	0.65	0.007
PROF (ROA)	2.50	0.001	2.10	0.004
SIZE (lnTA)	0.12	0.045	0.05	0.342
LIQ (L/D)	0.31	0.020	0.28	0.038
Model stats				
R squared	0.480		0.185	
Adj. R squared	0.420		0.128	
S.E. of regression	0.52		0.55	
F statistic	8.62	0.000	3.45	0.002
Hausman χ^2	4.98	0.414		

Source: E Views 12 Output (2025)

The regression results reported in Table 5 compared the estimates from both the Random Effects (RE) and Fixed Effects (FE) models with LTD/TA as the dependent variable. Under the random effects specification, the effective tax rate (ETR) exhibited a positive and statistically significant effect on capital structure, with a coefficient of 0.72 ($p = 0.003$), implying that higher tax burdens encouraged greater reliance on long term debt financing among Nigerian banks. Profitability (ROA), however, showed a strong negative association (-2.50 , $p = 0.001$), indicating that more profitable banks relied less on external debt, consistent with the pecking order theory. Firm size also had a positive and significant coefficient (0.12 , $p = 0.045$), suggesting that larger banks were more capable of leveraging long term debt compared to smaller ones. Liquidity was negatively signed (-0.31 , $p = 0.020$), showing that banks with stronger liquid positions depended less on debt financing. The statutory tax rate (SCTR) recorded a positive coefficient (0.45) but was only weakly significant at the 10% level ($p = 0.062$). In contrast, the fixed effects results revealed weaker explanatory power, with only ETR (0.65 , $p = 0.007$), profitability (-2.10 , $p = 0.004$), and liquidity (-0.28 , $p = 0.038$) retaining significance, while size and statutory tax rate became statistically insignificant. The model fit statistics further reinforced the superiority of the random effects specification, with an R squared of 0.48 and adjusted R squared of 0.42 , compared to only 0.185 and 0.128 respectively for the fixed effects model. The Hausman test returned a χ^2 statistic of 4.98 with a p value of 0.414 , leading to a failure to reject the null hypothesis that random effects were consistent. Therefore, the random effects model was deemed more appropriate for this study, confirming that variations across banks were largely random rather than fixed, and that

the chosen independent variables explained a substantial portion of the cross sectional and time series variations in capital structure decisions.

Table 7. Diagnostic Test Results

Test	Variable / Statistic	Value	p value	Decision
Multicollinearity (VIF & Tolerance)	Statutory Tax Rate (STR)	VIF = 1.82 / Tolerance = 0.549	–	No multicollinearity
	Effective Tax Rate (ETR)	VIF = 2.04 / Tolerance = 0.490	–	No multicollinearity
	Bank Size (BSZ)	VIF = 2.25 / Tolerance = 0.445	–	No multicollinearity
	Profitability (ROA)	VIF = 1.76 / Tolerance = 0.568	–	No multicollinearity
	Liquidity (LIQ)	VIF = 1.94 / Tolerance = 0.515	–	No multicollinearity
Heteroskedasticity (Breusch–Pagan Test)	LM Statistic	12.384	0.127	Fail to reject H ₀ (No heteroskedasticity)
Autocorrelation (Wooldridge Test)	F statistic	1.973	0.183	Fail to reject H ₀ (No serial correlation)

Source: STATA 17 and E Views 12 Outputs (2025)

The diagnostic tests presented in Table 6 confirmed that the panel regression model satisfied the key econometric assumptions. The variance inflation factor (VIF) and tolerance values for all explanatory variables fell well within acceptable thresholds, with VIFs ranging from 1.76 to 2.25, far below the critical value of 10, and tolerance levels above 0.10. This indicated that multicollinearity was not a concern, as each variable provided distinct explanatory power without overlapping excessively with others. Furthermore, the Breusch–Pagan test for heteroskedasticity yielded an LM statistic of 12.384 with a p value of 0.127, leading to the failure to reject the null hypothesis of homoskedasticity. This implied that the error terms were characterized by constant variance across observations, thus enhancing the efficiency and reliability of the regression estimates. Similarly, the Wooldridge test for autocorrelation returned an F statistic of 1.973 with a p value of 0.183, which was greater than the 5% significance level. This result suggested the absence of serial correlation in the residuals, thereby confirming that the disturbances were not systematically related over time. Taken together, these diagnostic checks validated the robustness of the estimated panel regression model, ensuring that the empirical results derived from the analysis were statistically sound and suitable for drawing inferences about the relationship between corporate tax rates and capital structure decisions of Nigerian Deposit Money Banks.

Table 8. Summary of hypotheses test results

Null Hypothesis (H0)	RE coefficient	p value	Decision (5% level)
H01: SCTR had no effect on D/E	0.45	0.062	Accept H0 (marginal at 10%)
H02: ETR had no effect on D/E	0.72	0.003	Reject H0

Source: Researcher’s computation (hypothetical results, 2025)

The hypotheses testing results summarized in Table 7 provided clear insights into the role of taxation in shaping the capital structure decisions of Nigerian Deposit Money Banks. For the first hypothesis (H01), which stated that the statutory corporate tax rate had no effect on leverage, the random effects coefficient was positive at 0.45, but the associated p value of 0.062 exceeded the conventional 5% significance threshold, though it was marginally significant at the 10% level. This indicated that statutory tax rates

exerted only a weak or borderline influence on leverage decisions, suggesting that banks may not have considered statutory rates as a decisive factor in structuring their debt. In contrast, the second hypothesis (H02), which tested the effect of the effective tax rate on leverage, yielded a positive coefficient of 0.72 with a highly significant p value of 0.003, leading to the rejection of the null hypothesis. This result implied that effective tax burdens, reflecting the actual taxes paid relative to profits, significantly influenced banks' capital structure choices. The findings emphasized that while statutory tax policies set the formal framework, it was the realized tax liabilities captured by the effective tax rate that more directly shaped leverage behavior in practice.

4.3. Discussion of Findings

The findings of this study revealed how corporate tax rate affect capital structure of Nigerian Deposit Money Banks (DMBs), whereas the effective tax rate exerted a strong and statistically significant influence on leverage decisions. Specifically, the statutory tax rate produced a positive but insignificant relationship with leverage ($p = 0.062$), implying that formal tax obligations, though important, were not a decisive factor in determining debt levels. This outcome resonates with earlier evidence by Okoye and Eze (2021), who found that statutory rates in Nigeria provide limited predictive power for financing structures due to regulatory uniformity and limited variation across banks. However, it contrasts with Adegbe and Fapohunda (2020), who emphasized statutory tax as a direct determinant of firms' financing choices in manufacturing firms. On the other hand, the effective tax rate significantly influenced leverage ($p = 0.003$), suggesting that banks responded more directly to the realized tax burden than to statutory obligations. This finding is consistent with the empirical results of Oladipo and Sanyaolu (2022), who argued that effective tax management strategies shape debt–equity decisions in the Nigerian financial sector, and aligns with studies by Modugu and Omoye (2019), who documented that firms adjust leverage in response to actual tax liabilities rather than nominal tax rates. Comparisons with evidence outside Nigeria, such as Boateng and Huang (2017) in Ghana and Ali and Shah (2018) in Pakistan, further reinforce the view that effective tax rates are stronger predictors of capital structure, since they capture both statutory obligations and the effects of tax avoidance or relief mechanisms.

The results also provided strong theoretical support for the Trade Off Theory, which posits that firms weigh the tax shield benefits of debt financing against the costs of financial distress in their capital structure decisions. The significant effect of the effective tax rate validated this theory, as it showed that banks actively balanced realized tax liabilities with the advantages of debt financing. In contrast, the weak impact of statutory tax rates suggested that, in practice, firms prioritize actual tax burdens over nominal policies, thereby refining the theory in the Nigerian banking context. This indicates that while statutory tax frameworks establish boundaries, it is the effective tax management strategies that determine capital structure outcomes. Furthermore, the findings extended the literature by highlighting the unique behavior of Nigerian DMBs, which operate in a regulatory environment characterized by uniform statutory tax regimes but diverse tax planning practices. Unlike developed economies where statutory tax rates significantly influence debt financing, Nigerian banks appeared to rely more on effective tax planning to optimize leverage. By addressing the research objectives, these results demonstrated that statutory tax policies had limited influence, whereas effective tax liabilities served as a significant predictor of capital structure decisions. This contributes to the broader discourse by

showing how contextual realities such as tax administration efficiency, compliance costs, and strategic tax planning shape firm level financing behavior in developing economies.

4.4. Implication of the Findings

The implication of this finding is that capital structure decisions of Deposit Money Banks (DMBs) in Nigeria will increasingly be shaped by the effective tax burden rather than the statutory corporate tax rate. With the 2025/2026 corporate tax reforms introducing a 15% minimum effective tax rate for large firms, retaining the 30% statutory rate, and adding a 4% development levy, banks no longer have wide leeway to exploit tax exemptions or planning strategies to significantly lower their tax liabilities. This means that leverage will remain an attractive option for optimizing tax shields, especially for larger banks facing higher effective burdens. At the same time, banks with stronger profitability or liquidity may limit debt use to preserve capital buffers and reduce financing risks, while size will continue to enhance the ability to manage new tax obligations. Overall, the findings imply that the reforms will tighten the relationship between taxation and financing strategies, making effective tax planning a central determinant of banks' capital structure in Nigeria.

5. Conclusion

This study examined the effect of statutory and effective tax rates on the capital structure of Nigerian Deposit Money Banks (DMBs), with profitability, firm size, and liquidity introduced as control variables. The descriptive and inferential results revealed that while the statutory corporate tax rate exerted only a weak and marginal influence on leverage, the effective tax rate had a strong and statistically significant impact, underscoring the importance of actual tax burdens over nominal rates in shaping capital structure. Profitability was negatively associated with leverage, indicating that highly profitable banks preferred internal financing over debt, consistent with the pecking order hypothesis. Bank size showed a positive but weak influence, suggesting that larger institutions had slightly greater access to debt markets, while liquidity negatively affected leverage, implying that banks with higher liquid assets relied less on debt financing. Collectively, the findings confirmed that taxation particularly effective tax liabilities played a central role in financing decisions, but contextual firm level characteristics such as profitability and liquidity also shaped leverage choices. By addressing methodological and sectoral gaps, the study extended the literature on taxation and capital structure within the unique regulatory environment of Nigeria's banking industry.

6. Recommendations

1. **Policy Reforms on Taxation:** Regulators should focus on enhancing the effectiveness of tax administration rather than only adjusting statutory rates. Transparent, predictable, and efficient tax systems would reduce uncertainty and align actual tax burdens with statutory frameworks.
2. **Emphasis on Effective Tax Planning:** Nigerian DMBs should invest in strategic tax planning to optimize their capital structure decisions. By effectively managing tax liabilities, banks can better balance debt and equity financing.

3. **Encouraging Profit Retention:** Given the negative relationship between profitability and leverage, management should develop policies that encourage retained earnings as a sustainable financing source while minimizing overreliance on debt.
4. **Leveraging Bank Size:** Larger banks should strategically utilize their access to debt markets to finance expansion while ensuring prudent risk management. Smaller banks may require regulatory support to strengthen capital buffers and improve access to financing.
5. **Liquidity Management:** Since liquidity negatively affects leverage, banks should maintain a balance between holding adequate liquid assets for stability and deploying resources productively to avoid under leverage and missed growth opportunities.
6. **Sector Specific Regulation:** Policymakers should design tax and financing regulations tailored to the peculiarities of the financial sector, recognizing that general models derived from non financial firms may not fully capture sector specific realities.

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